

**St. Johns Public Schools
St. Johns, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

St. Johns Public Schools

St. Johns, Michigan

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June 30, 2006

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St. Johns Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of St. Johns Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of St. Johns Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Johns Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2006

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

As management of the St. Johns Public Schools, we offer readers of the St. Johns Public Schools' financial statements this narrative overview and analysis of the financial activities of the St. Johns Public Schools for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the St. Johns Public Schools exceeded its liabilities at the close of the most recent fiscal year by \$10,674,563 (net assets).
- The school district's total net assets increased by \$184,238, as the result of current year activity.
- As of the close of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of approximately \$3,300,000, a decrease of approximately \$700,000 in comparison with the prior year adjusted combined fund balances.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was \$1,264,259, or 4.7 percent of total general fund expenditures.
- The St. Johns Public Schools' total long-term debt decreased by \$2,103,923 during the current fiscal year. The major factors in the decrease are the retirement of a portion of the bonded long term debt and payments made to the Michigan School Bond Loan Program.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the St. Johns Public Schools' basic financial statements. The St. Johns Public Schools' basic financial statements are comprised of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the St. Johns Public Schools' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the St. Johns Public Schools' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the St. Johns Public Schools is improving.

The *statement of activities* presents information showing how the school district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The district-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The St. Johns Public Schools, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the St. Johns Public Schools can be divided into two categories: governmental funds and fiduciary funds.

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a school district's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the school district's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The general fund is considered to be the school district's only major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* located in the "Other Supplementary Information" section of the report.

The St. Johns Public Schools adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the school district. Fiduciary funds are *not* reflected in the district-wide financial statement because the resources of those funds are *not* available to support the St. Johns Public Schools' own programs.

The basic fiduciary fund financial statements can be found on pages 7 and 8 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 9 through 23 of the report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a school district's financial position. In the case of the St. Johns Public Schools, assets exceeded liabilities by \$10,674,563 at the close of the most recent fiscal year. Following is a summary of Net Assets statement for St. Johns Public Schools:

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Summary of Net Assets:

The following table summarizes the districts net assets for the fiscal years ended June 30, 2006 and 2005:

Net Assets Summary		
	Governmental Activities	
	June 30, 2006	June 30, 2005
Assets		
Current and other assets	\$ 9,164,418	\$ 9,536,895
Capital assets	63,179,571	62,944,248
Less: accumulated depreciation	(16,281,493)	(14,806,984)
Capital assets, net book value	<u>46,898,078</u>	<u>48,137,264</u>
Total assets	<u>\$ 56,062,496</u>	<u>\$ 57,674,159</u>
Liabilities		
Current liabilities	\$ 8,060,807	\$ 7,693,662
Non-current liabilities	<u>37,327,126</u>	<u>39,491,972</u>
Total liabilities	45,387,933	47,185,634
Net Assets		
Invested in capital assets, net of related debt	8,503,660	7,703,481
Restricted for debt service	695,271	569,179
Unrestricted	<u>1,475,632</u>	<u>2,215,865</u>
Total net assets	<u>10,674,563</u>	<u>10,488,525</u>
Total Liabilities and Net Assets	<u>\$ 56,062,496</u>	<u>\$ 57,674,159</u>

By far the largest portion of the St. Johns Public Schools' net assets (79.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The St. Johns Public Schools uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the St. Johns Public Schools' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the St. Johns Public Schools' net assets (6.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (13.8 percent) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the St. Johns Public Schools is able to report a positive balance in net assets for the school district.

The school district's net assets increased by \$184,238 for fiscal year 2005-06. The increase represents the degree to which increases in Current Assets have grown more than the increases in the actual Current Liabilities.

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Results of Operations:

District-wide operating results for the fiscal years ended June 30, 2006 and 2005:

		Governmental Activities	
Revenues:		<u>June 30, 2006</u>	<u>June 30, 2005</u>
General Revenues:			
Property taxes		\$ 5,989,799	\$ 5,750,559
State of Michigan unrestricted foundation aid		21,106,496	20,665,764
County special education allocation		269,840	190,635
County vocational education allocation		572,363	586,949
Other general revenues		<u>541,167</u>	<u>523,700</u>
	Total General Revenues	28,479,665	27,717,607
Operating Grants:			
Federal		763,694	791,973
State of Michigan		<u>497,152</u>	<u>405,802</u>
	Total Operating Grants	1,260,846	1,197,775
Capital Grants:			
State of Michigan		6,994	2,030
Charges for Services:			
Food service activities		788,597	760,904
Athletic activities		246,530	222,889
Community service activities		115,755	312,781
Other local		<u>462,194</u>	<u>128,518</u>
	Total Charges for Services	<u>1,613,076</u>	<u>1,425,092</u>
	Total Revenues	31,360,581	30,342,504
Expenses:			
Instruction and instructional support		17,041,401	16,676,896
Support services		8,922,860	8,498,867
Food service activities		1,098,987	1,063,734
Athletic activities		464,175	424,128
Interest on long-term debt		2,054,050	2,078,473
Depreciation (unallocated)		1,521,214	1,840,121
Other		<u>73,656</u>	<u>28,094</u>
	Total Expenses	<u>31,176,343</u>	<u>30,610,313</u>
Net Revenues/(Expenses)		<u>\$ 184,238</u>	<u>\$ (267,809)</u>

- The major reasons for the increase in revenues was due to the foundation increase of \$175 per student and property tax revenue increased by \$239,240 during the year.
- On the expenditure side major increases were: Retirement costs for our employees increased by \$309,000; Health Insurance Premium cost increased by \$205,000; increases in transportation fuel cost (diesel fuel and oil up over 43% or \$46,000) and utility costs (Natural gas, electricity, water/sewer were up 9% or \$68,000).

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Financial Analysis of the School District's Funds

As noted earlier, the St. Johns Public Schools uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the St. Johns Public Schools' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the St. Johns Public Schools' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a school district's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of \$3,296,441, a decrease of \$703,881 in comparison with the prior year adjusted ending fund balances. Approximately 38% of this total amount (\$1,264,259) constitutes *unreserved general fund balance*, which is available for spending on operations at the school district's discretion. The remainder of fund balance is *designated or reserved* to indicate that it is not available for new spending because it has already been committed to: 1) cover purchase orders of the prior period and to cover an anticipated FY06-07 shortfall in the budget as passed (\$87,982); 2) pay debt service (\$1,006,620); 3) pay for the cost of inventory and prepaids (\$53,575); and 4) \$20,000 to partially cover the cost of the replacement of band uniforms. Additional fund balance amounts have accumulated in other funds, implying a designation for the respective funds' purposes, such as 1) Food Service Operations (\$299,303); 2) Athletic Operations (\$28,853); and 3) Capital Projects (\$535,849).

The general fund is the chief operating fund of the St. Johns Public Schools. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,264,259, while total fund balance was \$1,402,630. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.7 percent of total general fund expenditures, while total fund balance represents 5.2 percent of that same amount.

- Total revenues increased approximately \$1,005,777 during the year. This was the result of general fund revenue increases driven mainly by the \$175 per student increase in the foundation grant amount and property tax revenue increases for debt service payments.
- The fund balance of the St. Johns Public Schools' general fund decreased by \$630,218 from the ending fund balance reported in last year's audit due to the current fiscal year's on-going operations. Even though revenues increased as expressed in the previous bullet, the expenditures increased at an even faster rate within the General Fund.

The debt service funds have a total fund balance of \$1,006,620, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$100,910.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve an original budget for the upcoming year prior to the start of the fiscal year on July 1.

St. Johns Public Schools amends its budget twice each year. For FY2005-06 the budget was amended in February 2006 and June 2006. The June 2006 budget amendment was the final budget for the fiscal year.

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Changes in the General Fund Budget from Original, Final Budget, and Actual:

	Original Budget (Adopted <u>June 2005</u>)	Final Budget (Adopted <u>June 2006</u>)	Actual Year Ended <u>June 30, 2006</u>
Total Revenues	\$ 25,667,008	\$ 25,996,458	\$ 26,087,063
Total Expenditures	\$ 26,255,661	\$ 26,856,309	\$ 26,717,281

FY2005-06 General Fund operations result's impact on Net Assets: \$(630,218)

Revenues:

The district's actual revenues were \$420,055 higher than the original budget projections.

Expenditures:

The district's actual expenditures were \$461,620 higher than the original budget projections.

Debt Administration

At the end of the current fiscal year, St. Johns Public Schools had total bonded debt outstanding of \$33,640,549. The remainder of the District's debt is made of Installment and Michigan School Bond Loans.

St. Johns Public Schools' total debt, including amounts owed to employees for compensated absences, decreased by \$2,103,923 (approximately 5.1 percent) during the current fiscal year.

The school district continued to make payments to the Michigan School Bond Loan Fund program.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Economic Factors and Next Year's Budgets

- The State of Michigan annually establishes a foundation allowance for each enrolled student. The District's foundation allowance for the 2006-2007 fiscal year is expected to increase to \$7,085 per pupil. This would represent an increase of \$210 per student (a 3.0% increase).
- Health insurance costs continue to escalate. Although District employees have shared in the cost of the premium increase, the District insurance package continues to represent a significant percentage of the cost of an employee to the District.
- District pension costs are also rising at a rapid rate. An increase from 16.34 percent per salary dollar to 17.74 percent per salary dollar will require a substantial increase in budgeted expenditures for the 2006-2007 fiscal years.
- The school district anticipates a student blended count decline of 5 students for the 2006-2007 fiscal year. The FY2006-2007 budget was built using this assumption. Local economic factors and the overall economy of the State will impact actual student enrollment.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, St. Johns Public Schools, 501 W. Sickles, St. Johns, Michigan 48879.

BASIC FINANCIAL STATEMENTS

St. Johns Public Schools

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,359,100
Accounts receivable	39,933
Due from other governmental units	4,097,079
Inventory	40,493
Prepaid expenses	13,082
	<hr/>
Total current assets	8,549,687
Noncurrent assets	
Investments	614,731
Capital assets not being depreciated	802,535
Capital assets, net of accumulated depreciation	46,095,543
	<hr/>
Total noncurrent assets	47,512,809
	<hr/>
TOTAL ASSETS	56,062,496
LIABILITIES	
Current liabilities	
Accounts payable	105,587
Accrued payroll	1,606,179
Accrued interest payable	311,349
Other accrued liabilities	1,058,226
Deferred revenue	22,356
Short-term notes payable	3,075,629
Current portion of compensated absences and termination benefits	81,419
Current portion of long-term debt	1,800,062
	<hr/>
Total current liabilities	8,060,807
Noncurrent liabilities	
Noncurrent portion of compensated absences and termination benefits	732,770
Noncurrent portion of long-term debt	36,594,356
	<hr/>
Total noncurrent liabilities	37,327,126
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TOTAL LIABILITIES	45,387,933
NET ASSETS	
Invested in capital assets, net of related debt	8,503,660
Restricted for debt service	695,271
Unrestricted	1,475,632
	<hr/>
TOTAL NET ASSETS	\$ 10,674,563
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See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

		Program Revenues			Net (Expense)
			Operating	Capital	Revenues and
		Charges for	Grants and	Grants and	Changes in
	Expenses	Services	Contributions	Contributions	Net Assets
Governmental Activities					Governmental
Functions/Programs					Activities
Instruction	\$ 16,517,871	\$ 291,683	\$ 886,606	\$ -	\$ (15,339,582)
Supporting services	8,922,860	170,511	46,263	-	(8,706,086)
Community services	523,530	115,755	-	6,994	(400,781)
Food services	1,098,987	788,597	327,977	-	17,587
Athletics	464,175	246,530	-	-	(217,645)
Interest on long-term debt	2,054,050	-	-	-	(2,054,050)
Other	73,656	-	-	-	(73,656)
Unallocated depreciation	1,521,214	-	-	-	(1,521,214)
TOTAL EXPENSES	\$ 31,176,343	\$ 1,613,076	\$ 1,260,846	\$ 6,994	(28,295,427)
General Revenues					
Property taxes					5,989,799
State school aid - unrestricted					21,106,496
Special Education county allocation					269,840
Vocational Education county allocation					572,363
Investment earnings					173,066
Miscellaneous					368,101
TOTAL GENERAL REVENUES					28,479,665
CHANGE IN NET ASSETS					184,238
Restated net assets, beginning of year					10,490,325
Net assets, end of year					\$ 10,674,563

See accompanying notes to financial statements

St. Johns Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,656,775	\$ 1,702,325	\$ 4,359,100
Investments	-	614,731	614,731
Accounts receivable	39,933	-	39,933
Due from other funds	443,684	16,651	460,335
Due from other governmental units	4,064,165	32,914	4,097,079
Inventory	25,407	15,086	40,493
Prepaid expenditures	13,082	-	13,082
TOTAL ASSETS	\$ 7,243,046	\$ 2,381,707	\$ 9,624,753
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 98,285	\$ 7,302	\$ 105,587
Accrued payroll	1,588,573	17,606	1,606,179
Other accrued liabilities	1,052,210	6,016	1,058,226
Due to other funds	16,651	443,684	460,335
Deferred revenue	9,068	13,288	22,356
Short-term notes payable	3,075,629	-	3,075,629
TOTAL LIABILITIES	5,840,416	487,896	6,328,312
FUND BALANCES			
Reserved for			
Inventory and prepaids	38,489	15,086	53,575
Debt service	-	1,006,620	1,006,620
Unreserved			
Designated for:			
Subsequent year's expenditures	79,882	8,100	87,982
Other purposes	20,000	-	20,000
Undesignated, reported in:			
General Fund	1,264,259	-	1,264,259
Special Revenue Funds	-	328,156	328,156
Capital Project Fund	-	535,849	535,849
TOTAL FUND BALANCES	1,402,630	1,893,811	3,296,441
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,243,046	\$ 2,381,707	\$ 9,624,753

See accompanying notes to financial statements.

St. Johns Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 3,296,441

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 63,179,571	
Accumulated depreciation is	<u>(16,281,493)</u>	46,898,078

Governmental funds report the difference between the carrying amount of the defeased debt
and its reacquisition price when debt is first issued, whereas these amounts are deferred and
amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt	126,914
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Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	38,521,332	
Accrued interest payable	311,349	
Vacation and severance pay	<u>814,189</u>	<u>(39,646,870)</u>

Net assets of governmental activities \$ 10,674,563

See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 3,100,215	\$ 4,913,364	\$ 8,013,579
State sources	21,528,441	80,405	21,608,846
Federal sources	478,746	279,749	758,495
OTHER FINANCING SOURCES			
Transfers from other funds	-	363,915	363,915
County special education allocation	269,840	-	269,840
County vocational education allocation	505,320	-	505,320
Other transactions	204,501	-	204,501
TOTAL REVENUES AND OTHER FINANCING SOURCES	26,087,063	5,637,433	31,724,496
EXPENDITURES			
Current			
Instruction	16,347,324	-	16,347,324
Supporting services	8,974,627	-	8,974,627
Community services	523,530	-	523,530
Food service activities	-	1,097,852	1,097,852
Athletic activities	-	464,175	464,175
Capital outlay	-	247,810	247,810
Debt service			
Principal retirement	107,416	1,662,178	1,769,594
Interest, fiscal and other charges	109,922	2,239,081	2,349,003
OTHER FINANCING USES			
Transfers to other funds	363,915	-	363,915
Payments to other districts	216,891	-	216,891
Other	73,656	-	73,656
TOTAL EXPENDITURES AND OTHER FINANCING USES	26,717,281	5,711,096	32,428,377
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(630,218)	(73,663)	(703,881)
Fund balances, beginning of year	2,032,848	1,967,474	4,000,322
Fund balances, end of year	\$ 1,402,630	\$ 1,893,811	\$ 3,296,441

See accompanying notes to financial statements.

St. Johns Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (703,881)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 280,228	
Depreciation expense	<u>(1,521,214)</u>	
Excess of depreciation expense over capital outlay		(1,240,986)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Amortization of defeased debt	(31,728)	
Bond and loan principal retirement	2,269,594	
Bond and loan proceeds (including SBLF interest)	<u>(198,501)</u>	
Excess of bond principal retirement over bond proceeds		2,039,365

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	25,182	
Decrease in accrued vacation and severance pay	<u>64,558</u>	
		<u>89,740</u>

Change in net assets of governmental activities \$ 184,238

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 31,946	\$ 354,874
Investments	64,448	-
TOTAL ASSETS	96,394	\$ 354,874
LIABILITIES		
Due to individuals		
High School	-	\$ 174,590
Middle School	-	94,270
Elementary Schools	-	61,497
Other	-	24,517
Deferred revenue	18,699	-
TOTAL LIABILITIES	18,699	\$ 354,874
NET ASSETS		
Held in trust for scholarships	63,946	
Held in trust for grants	13,749	
TOTAL NET ASSETS	\$ 77,695	

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings	
Interest	\$ 4,997
Contributions	67,028
Total additions	72,025
DEDUCTIONS	
Other supporting services	65,127
CHANGE IN NET ASSETS	6,898
Net assets - beginning of year	70,797
Net assets - end of year	\$ 77,695

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of St. Johns Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of St. Johns Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide and fiduciary private purpose trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

St. Johns Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 26, 2006.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$4,097,079 due from other governmental units, \$3,907,246 consists of State Aid and the remaining \$189,833 from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	10 - 50 years
Equipment and furniture	5 - 25 years
Vehicles	8 years
Other capital equipment	5 - 25 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, and summer school lunch, recreational programs are also deferred.

13. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2006, and anticipated State Aid is expected to be sufficient to cover this commitment.

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements as a current liability.

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

18. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are recorded when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

19. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

20. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of June 30, 2006, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,359,100	\$ 386,820	\$ 4,745,920
Investments	<u>614,731</u>	<u>64,448</u>	<u>679,179</u>
	<u>\$ 4,973,831</u>	<u>\$ 451,268</u>	<u>\$ 5,425,099</u>

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$3,008,285 and the bank balance was \$3,431,549 of which \$464,072 was covered by Federal depository insurance. The balance of \$2,967,477 was uninsured and uncollateralized. The District had \$767 of cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (years)</u>
Michigan Liquid Asset Fund Plus	<u>\$ 2,416,047</u>	<u>\$ 2,416,047</u>	Less than 12 Months Average

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2006, the District's investment in the Michigan Liquid Asset Fund Plus was rated AAA by Standards and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by monitoring the weighted average maturity of its investment portfolio through its financial reports and investment authorizations.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Custodial credit risk

The District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	Restated Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 802,535	\$ -	\$ -	\$ 802,535
Capital assets being depreciated				
Buildings and additions	55,584,854	-	-	55,584,854
Equipment and furniture	462,661	19,210	-	481,871
Vehicles	1,520,643	121,742	(46,705)	1,595,680
Other capital equipment	<u>4,575,355</u>	<u>139,276</u>	<u>-</u>	<u>4,714,631</u>
Subtotals	62,143,513	280,228	(46,705)	62,377,036
Less accumulated depreciation for:				
Buildings and additions	(10,687,228)	(1,104,594)	-	(11,791,822)
Equipment and furniture	(157,268)	(41,271)	-	(198,539)
Vehicles	(1,108,446)	(129,481)	46,705	(1,191,222)
Other capital equipment	<u>(2,854,042)</u>	<u>(245,868)</u>	<u>-</u>	<u>(3,099,910)</u>
Total accumulated depreciation	<u>(14,806,984)</u>	<u>(1,521,214)</u>	<u>46,705</u>	<u>(16,281,493)</u>
Net capital assets being depreciated	<u>47,336,529</u>	<u>(1,240,986)</u>	<u>-0-</u>	<u>46,095,543</u>
Capital assets, net	<u>\$48,139,064</u>	<u>\$(1,240,986)</u>	<u>\$ -0-</u>	<u>\$46,898,078</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: SHORT-TERM NOTES

On August 19, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of \$3,000,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$3,075,629 at June 30, 2006, is reported in the General Fund under the caption short-term notes payable. The outstanding balance is due August 18, 2006.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
1995 School Building and Site General Obligation Bonds	\$ 4,300,000	\$ -	\$ 1,400,000	\$ 2,900,000	\$ 1,400,000
2003 Energy Conservation Bonds	1,030,000	-	115,000	915,000	120,000
1998 Refunding Bonds	26,400,000	-	85,000	26,315,000	90,000
2004 Refunding Bonds	3,280,000	-	40,000	3,240,000	40,000
1998 Durant Resolution Bonds	292,727	-	22,178	270,549	105,981
Installment Loans	360,536	-	107,416	253,120	44,081
Michigan School Bond Loans					
Principal and interest	4,929,162	198,501	500,000	4,627,663	-
Severance pay	719,876	-	65,029	654,847	65,485
Vacation pay	158,871	471	-	159,342	15,934
	41,471,172	198,972	2,334,623	39,335,521	1,881,481
Less deferred amounts:					
On refunding	158,642	-	31,728	126,914	-
Total	<u>\$41,312,530</u>	<u>\$ 198,972</u>	<u>\$ 2,302,895</u>	<u>\$39,208,607</u>	<u>\$ 1,881,481</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2006:

\$42,525,000 School Building and Site General Obligation Bonds dated November 11, 1995, due in annual installments ranging from \$1,400,000 to \$1,500,000 through May 1, 2008 with interest of 6.50 percent, payable semi-annually.	\$ 2,900,000
\$26,905,000 1998 Refunding Bonds dated June 15, 1998, due in annual installments ranging from \$90,000 to \$1,780,000 through May 1, 2025 with interest ranging from 4.50 to 5.10 percent, payable semi-annually.	26,315,000
\$1,250,000 2003 Energy Conservation Improvement Bonds dated September 30, 2003, due in annual installments ranging from \$120,000 to \$145,000 through May 1, 2013 with interest ranging from 2.50 to 4.10 percent, payable semi-annually.	915,000
\$3,355,000 2004 Refunding Bonds dated February 18, 2004, due in annual installments ranging from \$40,000 to \$1,610,000 through May 1, 2010 with interest ranging from 2.00 to 3.00 percent, payable semi-annually.	<u>3,240,000</u>
	<u>\$33,370,000</u>

Resolution Bonds

\$458,197 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$24,341 to \$105,981, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>\$ 270,549</u>
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St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Installment Loans

\$420,000 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$14,054 to \$20,226 through May 15, 2013 with interest at 5.68 percent, payable semi-annually. \$ 237,547

\$180,000 Installment Purchase Agreement dated September 19, 2003, due in monthly installments of \$5,179 to \$5,203 with interest of 2.75 percent, payable monthly. 15,573

\$ 253,120

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.125 to 4.500 percent.

The balances at June 30, 2006, are as follows:

Loan balance	\$ 4,284,000
Interest balance	<u>343,663</u>
	<u>\$ 4,627,663</u>

Annual Requirements for Bonded Debt and Installment Loans

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 105,981	\$ 45,853	\$ 1,650,000	\$ 1,535,413	\$ 44,081	\$ 13,165
2008	24,341	7,836	1,760,000	1,482,018	30,150	11,451
2009	25,500	6,677	1,770,000	1,424,173	31,887	9,715
2010	26,713	5,463	1,840,000	1,373,235	33,723	7,878
2011	27,985	4,191	1,835,000	1,315,585	35,666	5,935
2012-2016	60,029	4,320	9,010,000	5,244,995	77,613	5,588
2017-2021	-	-	8,715,000	3,034,450	-	-
2022-2025	-	-	6,790,000	862,665	-	-
	<u>\$ 270,549</u>	<u>\$ 74,340</u>	<u>\$ 33,370,000</u>	<u>\$ 16,272,533</u>	<u>\$ 253,120</u>	<u>\$ 53,732</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior

On February 18, 2004 the District defeased the portion of the 1995 School Building and Site Bonds, which are due and payable May 1, 2009 through May 1, 2010. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2004 Refunding Bonds in the amount of \$3,355,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2009 through May 1, 2010 for the 1995 School Building and Site Bonds in the amount of \$3,100,000 are considered defeased. The amount transferred to the escrow agent exceeded the amount defeased by \$222,098. This amount is being netted against the new debt and amortized over the life of the new debt, which is shorter than the life of the refunded debt.

On June 15, 1998 the District defeased the portion of the 1995 School Building and Site Bonds which are due and payable May 1, 2011 through May 1, 2025. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 1998 Refunding Bonds in the amount of \$26,905,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2011 through May 1, 2025 for the 1995 School Building and Site Bonds in the amount of \$25,225,000 are considered defeased.

Severance Pay

In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2006 for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2006 and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 426,180	\$ 182,131	\$ 608,312
Payroll taxes	<u>32,603</u>	<u>13,933</u>	<u>46,536</u>
	<u>\$ 458,784</u>	<u>\$ 196,064</u>	<u>\$ 654,847</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Vacation Payable

In recognition of services to the District, an accumulated unused vacation days' payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The vacation liabilities including the related payroll taxes which has been recorded in the District-wide financial statements is \$159,342.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 443,684</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 16,651</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 363,915</u>

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006, was \$16,003,470 of which \$13,281,384 was for members who have elected the MIP option; the District's total payroll was \$16,258,161.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 514,792	\$ 2,558,811	\$ 3,073,603
2005	489,186	2,275,903	2,765,089
2004	500,670	2,032,707	2,533,377

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.4
2004	4.0	13.0

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventory and prepaids	\$ 38,489
Nonmajor Governmental Funds	
Reserved for inventory and prepaids	\$ 15,086
Reserved for debt service	<u>1,006,620</u>
	<u>\$ 1,021,706</u>

The following are the various fund balance designations as of June 30, 2006:

General Fund	
Designated for subsequent year's expenditures	\$ 79,882
Designated for other purposes	
Band uniforms	<u>20,000</u>
	<u>\$ 99,882</u>
Nonmajor Governmental Funds	
Designated for subsequent year's expenditures	<u>\$ 8,100</u>

NOTE J: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities	
Restricted for debt service	<u>\$ 695,271</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In June 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by St. Johns Public Schools.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the Districts' storage tanks, boilers, and machinery for which the District carries commercial insurance.

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, equipment breakdown (Boiler and Machinery), fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. St. Johns Public Schools, a nonplaintiff District, was awarded \$916,394 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE N: SUBSEQUENT EVENT

In August 2006, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$3,500,000 was for the purpose of funding operating expenditures until the fiscal year 2007 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

REQUIRED SUPPLEMENTARY INFORMATION

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,784,625	\$ 3,055,283	\$ 3,100,215	\$ 44,932
State sources	21,407,983	21,497,486	21,528,441	30,955
Federal sources	514,500	464,148	478,746	14,598
OTHER FINANCING SOURCES				
County special education allocation	189,300	269,645	269,840	195
County vocational education allocation	577,000	502,163	505,320	3,157
Other transactions	193,600	207,733	204,501	(3,232)
TOTAL REVENUES AND OTHER FINANCING SOURCES				
	25,667,008	25,996,458	26,087,063	90,605
EXPENDITURES				
Current				
Instruction				
Basic needs	12,424,506	12,518,545	12,561,929	(43,384)
Added needs	3,723,143	3,842,557	3,785,395	57,162
Total instruction	16,147,649	16,361,102	16,347,324	13,778
Supporting services				
Pupil	820,300	850,400	852,114	(1,714)
Instructional staff	454,630	475,521	450,217	25,304
General administration	604,100	632,600	619,260	13,340
School administration	1,684,588	1,731,656	1,748,865	(17,209)
Business	364,300	277,900	279,459	(1,559)
Central	45,000	59,300	53,233	6,067
Professional development	30,000	30,000	28,487	1,513
Technology	696,136	672,720	658,233	14,487
Pupil transportation	1,275,890	1,313,742	1,300,573	13,169
Operations and maintenance	2,750,900	3,055,400	2,984,186	71,214
Total supporting services	8,725,844	9,099,239	8,974,627	124,612
Community services				
Care of children	525,990	528,790	503,796	24,994
Adult and continuing education	39,200	23,000	19,734	3,266
Total community services	565,190	551,790	523,530	28,260

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Debt service				
Principal retirement	\$ 132,000	\$ 122,300	\$ 107,416	\$ 14,884
Interest, fiscal, and other charges	11,100	94,900	109,922	(15,022)
Total debt service	143,100	217,200	217,338	(138)
OTHER FINANCING USES				
Transfers to other funds	376,215	376,215	363,915	12,300
Payments to other districts	297,663	221,763	216,891	4,872
Other	-	29,000	73,656	(44,656)
TOTAL EXPENDITURES AND OTHER FINANCING USES	26,255,661	26,856,309	26,717,281	139,028
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(588,653)	(859,851)	(630,218)	229,633
Fund balance, beginning of year	2,032,848	2,032,848	2,032,848	-0-
Fund balance, end of year	\$ 1,444,195	\$ 1,172,997	\$ 1,402,630	\$ 229,633

OTHER SUPPLEMENTARY INFORMATION

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
ASSETS				
Cash	\$ 646,013	\$ 56,389	\$ 169,526	\$ 769,433
Investments	-	-	-	-
Due from other governmental units	32,914	-	-	-
Due from other funds	-	-	8,688	7,609
Inventory	15,086	-	-	-
TOTAL ASSETS	<u>\$ 694,013</u>	<u>\$ 56,389</u>	<u>\$ 178,214</u>	<u>\$ 777,042</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 154	\$ 7,148	\$ -	\$ -
Accrued payroll	17,324	282	-	-
Other accrued liabilities	5,948	68	-	-
Deferred revenue	13,288	-	-	-
Due to other funds	337,910	16,938	-	-
TOTAL LIABILITIES	374,624	24,436	-0-	-0-
FUND BALANCES				
Reserved for				
Inventory	15,086	-	-	-
Debt service	-	-	178,214	777,042
Unreserved				
Designated for:				
Subsequent year's expenditures	5,000	3,100	-	-
Undesignated, reported in:				
Special Revenue Funds	299,303	28,853	-	-
Capital Project Funds	-	-	-	-
TOTAL FUND BALANCES	<u>319,389</u>	<u>31,953</u>	<u>178,214</u>	<u>777,042</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 694,013</u>	<u>\$ 56,389</u>	<u>\$ 178,214</u>	<u>\$ 777,042</u>

Service			Capital Projects		Total Nonmajor Governmental Funds
2003 Energy Conservation Bonds	2004 Refunding Bonds	Durant Bonds	Improvement Projects	2003 Energy Conservation Project	
\$ -	\$ 51,010	\$ -	\$ 9,954	\$ -	\$ 1,702,325
-	-	-	614,731	-	614,731
-	-	-	-	-	32,914
-	354	-	-	-	16,651
-	-	-	-	-	15,086
<u>\$ -0-</u>	<u>\$ 51,364</u>	<u>\$ -0-</u>	<u>\$ 624,685</u>	<u>\$ -0-</u>	<u>\$ 2,381,707</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,302
-	-	-	-	-	17,606
-	-	-	-	-	6,016
-	-	-	-	-	13,288
-	-	-	88,836	-	443,684
-0-	-0-	-0-	88,836	-0-	487,896
-	-	-	-	-	15,086
-	51,364	-	-	-	1,006,620
-	-	-	-	-	8,100
-	-	-	-	-	328,156
-	-	-	535,849	-	535,849
-0-	51,364	-0-	535,849	-0-	1,893,811
<u>\$ -0-</u>	<u>\$ 51,364</u>	<u>\$ -0-</u>	<u>\$ 624,685</u>	<u>\$ -0-</u>	<u>\$ 2,381,707</u>

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
REVENUES				
Local sources	\$ 791,956	\$ 246,579	\$ 1,958,798	\$ 1,722,127
State sources	48,229	-	-	-
Federal sources	279,749	-	-	-
OTHER FINANCING SOURCES				
Transfers from other funds	-	214,600	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,119,934	461,179	1,958,798	1,722,127
EXPENDITURES				
Current				
Food service activities	1,097,852	-	-	-
Athletic activities	-	464,175	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	-	-	1,400,000	85,000
Interest, fiscal and other charges	-	-	549,899	1,551,136
TOTAL EXPENDITURES	1,097,852	464,175	1,949,899	1,636,136
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	22,082	(2,996)	8,899	85,991
Fund balances, beginning of year	297,307	34,949	169,315	691,051
Fund balances, end of year	\$ 319,389	\$ 31,953	\$ 178,214	\$ 777,042

Service			Capital Projects		Total Nonmajor Governmental Funds
2003 Energy Conservation Bonds	2004 Refunding Bonds	Durant Bonds	Improvement Projects	2003 Energy Conservation Project	
\$ -	\$ 139,753	\$ -	\$ 54,151	\$ -	\$ 4,913,364
-	-	32,176	-	-	80,405
-	-	-	-	-	279,749
149,315	-	-	-	-	363,915
149,315	139,753	32,176	54,151	-0-	5,637,433
-	-	-	-	-	1,097,852
-	-	-	-	-	464,175
-	-	-	228,112	19,698	247,810
115,000	40,000	22,178	-	-	1,662,178
34,315	93,733	9,998	-	-	2,239,081
149,315	133,733	32,176	228,112	19,698	5,711,096
-0-	6,020	-0-	(173,961)	(19,698)	(73,663)
-	45,344	-	709,810	19,698	1,967,474
\$ -0-	\$ 51,364	\$ -0-	\$ 535,849	\$ -0-	\$ 1,893,811

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Scholarships	Grants	Total
ASSETS			
Cash and cash equivalents	\$ 18,197	\$ 13,749	\$ 31,946
Investments	64,448	-	64,448
TOTAL ASSETS	82,645	13,749	96,394
LIABILITIES AND NET ASSETS			
LIABILITIES			
Deferred revenue	18,699	-	18,699
NET ASSETS			
Held in trust for scholarships	63,946	-	63,946
Held in trust for grants	-	13,749	13,749
TOTAL NET ASSETS	\$ 63,946	\$ 13,749	\$ 77,695

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year Ended June 30, 2006

	<u>Scholarships</u>	<u>Grants</u>	<u>Total</u>
ADDITIONS			
Investment earnings			
Interest	\$ 4,997	\$ -	\$ 4,997
Contributions	<u>54,531</u>	<u>12,497</u>	<u>67,028</u>
Total additions	59,528	12,497	72,025
DEDUCTIONS			
Other supporting services	<u>52,586</u>	<u>12,541</u>	<u>65,127</u>
CHANGE IN NET ASSETS	6,942	(44)	6,898
Net assets - beginning of year	<u>57,004</u>	<u>13,793</u>	<u>70,797</u>
Net assets - end of year	<u>\$ 63,946</u>	<u>\$ 13,749</u>	<u>\$ 77,695</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2006, which collectively comprise St. Johns Public Schools basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Johns Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Johns Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of St. Johns Public Schools in a separate letter dated August 10, 2006.

This report is intended solely for the use of the administration and Board of Education of St. Johns Public Schools, the federal awarding agencies, and the pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2006

East Lansing ■ Rochester Hills ■ St. Johns

St. Johns Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

St. Johns Public Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
St. Johns Public Schools
St. Johns, Michigan

Compliance

We have audited the compliance of St. Johns Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2006. St. Johns Public Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs is the responsibility of St. Johns Public Schools' management. Our responsibility is to express an opinion on St. Johns Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about St. Johns Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Johns Public Schools' compliance with those requirements.

In our opinion, St. Johns Public Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ending June 30, 2006.

Internal Control Over Compliance

The management of St. Johns Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered St. Johns Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise St. Johns Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of St. Johns Public Schools, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2006

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2005 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2006 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through State								
Department of Education								
School Breakfast Program	10.553 ^(f)							
2004-05		051970	\$ 18,017	\$ 15,496	\$ -	\$ 1,797	\$ 1,797	\$ -0-
2005-06		061970	20,644	-	-	20,644	20,644	-0-
			38,661	15,496	-0-	22,441	22,441	-0-
National School Lunch Program	10.555 ^(f)							
2004-05		051950,051960	179,880	155,101	-	28,385	28,385	-0-
2005-06		061950, 061960	175,414	-	-	175,414	175,414	-0-
			355,294	155,101	-0-	203,799	203,799	-0-
Food Donation (c)	10.550							
Entitlement commodities		19140	48,090	-	-	48,090	48,090 (a)	-0-
Bonus commodities		19140	5,419	-	-	5,419	5,419 (a)	-0-
			53,509	-0-	-0-	53,509	53,509	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			447,464	170,597	-0-	279,749	279,749	-0-
U.S. DEPARTMENT OF EDUCATION								
Passed Through State								
Department of Education								
E.S.E.A. Title I	84.010 ^(e)							
2004-05 Regular, Part A		0515300405	333,853	333,853	48,978	48,978	-	-0-
2004-05 Regular, Part D		0517000405	69,029	4,009	3,818	3,818	-	-0-
2005-06 Regular, Part A		0615300506	330,653	-	-	197,530	287,995	90,465
2005-06 Carryover Part D		0517000506	68,800	-	-	16,685	19,041	2,356
			802,335	337,862	52,796	267,011	307,036	92,821

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2005 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2006 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED								
State Plan Self Review	84.027	0604400506	\$ 4,400	\$ -	\$ -	\$ -	\$ 2,948	\$ 2,948
Title V	84.298							
2005-06 Regular, Part A		0602500506	1,518	-	-	1,375	1,518	143
Technology Literacy Challenge Grants	84.318							
2003-04 Carryover		0442900405	5,610	5,610	4,810	4,810	-	-0-
2004-05 Regular		0542900405	8,485	8,485	8,485	8,485	-	-0-
			14,095	14,095	13,295	13,295	-0-	-0-
Improving Teacher Quality	84.367							
2004-05 Regular		0505200405	108,480	108,479	1,709	1,709	-	-0-
2004-05 Carryover		0505200506	23,782	-	-	23,782	23,782	-0-
2005-06 Regular		0605200506	131,617	-	-	106,131	131,617	25,486
			263,879	108,479	1,709	131,622	155,399	25,486
Other Federal Assistance								
Passed through Reading is Fundamental, Inc.								
Reading is Fundamental	84.000	MI-037	5,199	-	-	5,199	5,199	-0-
TOTAL U.S. DEPARTMENT OF EDUCATION			1,091,426	460,436	67,800	418,502	472,100	121,398
U.S. DEPARTMENT OF HOMELAND SECURITY								
Passed Through Michigan State Police								
State Homeland Security Grant Program								
(SHSGP) Part II (School Initiative)	97.004							
2005		2003-MUT300128	11,845	-	-	11,845	11,845	-0-
TOTAL FEDERAL AWARDS			\$ 1,550,735	\$ 631,033	\$ 67,800	\$ 710,096	\$ 763,694 (b)	\$ 121,398

(d)

St. Johns Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2006, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (f) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.

NOTE C: RECONCILIATION TO FINANCIAL STATEMENTS

The following reconciles the federal revenues reported in the June 30, 2006 Basic Financial Statements to the expenditures of the District administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Revenues from federal sources per financial statements	\$ 478,746	\$ 279,749	\$ 758,495
Add: Federal grant activity not recorded in financial statements (RIF Grant)	<u>5,199</u>	<u>-</u>	<u>5,199</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 483,945</u>	<u>\$ 279,749</u>	<u>\$ 763,694</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools, Michigan as of and for the year ended June 30, 2006 which collectively comprise St. Johns Public Schools basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Johns Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of St. Johns Public Schools in a separate letter dated August 10, 2006.

This report is intended solely for the information and use of the Board of Education and administration of St. Johns Public Schools, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2006

St. Johns Public Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)
84.010

Name of Federal Program or Cluster
Title I

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

St. Johns Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2006

There were no findings disclosed for the past two years.

Principals

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MANAGEMENT LETTER

Board of Education
St. Johns Public Schools
St. Johns, Michigan

As you know, we have recently completed our audit of the records of St. Johns Public Schools for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Decentralized student activity accounting and documentation procedures should be reviewed and revised as needed.

Various student activities of the District operate accounting systems separately from the Central Business Office. Summarized financial information is accumulated on these activities and recorded annually in the audited financial statements. These activities have experienced increasing financial activity over the past few years, but the related internal controls over these activities have not increased to assure proper safeguarding of these assets and activities.

During our analysis and testing of the internal controls related to decentralized accounting systems, we noted four (4) instances where sufficient documentation was not retained to support disbursements (i.e., invoice, purchase order, etc.), two (2) instances where sufficient documentation was not retained to support receipts (copy of checks, invoices, etc.), two (2) instance in which sales tax had been paid on disbursements, and two (2) instances in which funds collected were not deposited in a timely manner. Internal control issues related to decentralized activities were noted and reported in our audit comments last year.

We feel it is important that appropriate accounting policies and procedures are followed and sufficient internal controls be utilized when accounting for these activities.

We suggest the District review and revise, as needed, the accounting policies related to all decentralized activities. The District should stress to the appropriate school personnel the importance of following procedures and should periodically monitor adherence to the policies.

2. The District needs to monitor and limit the use of it's name and/or employer identification number.

During the course of our audit, it was noted that several organizations/entities independent of the District hold deposit accounts with local banks under the name and/or employer identification number of the District.

We suggest the District contact the local banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District. If the groups independent of the District want to keep the account information the same they should make their records available for annual audit.

3. The District should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the District had outstanding checks listed on their bank reconciliations that were over two (2) years old. The Michigan Public Act 29 of 1995 provides that the District report and escheat unclaimed property to the State of Michigan in the year after they have been outstanding for more than one year.

We suggest the District attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the District review their unclaimed property and escheat funds to the State of Michigan as necessary.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements, dated August 10, 2006.

This report is intended solely for the use of administration and the Board of Education of St. Johns Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2006